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## **OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT**

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# **Review of San Diego Housing Commission Fiscal Year 2011 Budget**

## **OVERVIEW**

The FY 2011 Proposed Budget is \$291.7 million, a decrease of \$28.3 million, or 8.9%, from the FY 2010 Budget. It includes the addition of 4.00 FTE positions for a total of 261.50 FTE positions in FY 2011. The Housing Commission recommended adoption of the Fiscal Year 2011 Budget on March 19, 2010.

As in past years, the Housing Commission is requesting the authority to amend the budget for amounts up to \$250,000. It is expected any changes above \$250,000 will be brought forward for the approval to the Housing Authority and the budget will be amended throughout the upcoming fiscal year as necessary.

The Housing Commission budget is organized into four activity groups - Housing Services and Special Initiatives, Real Estate, Operations, and Reserves - supported by a variety of restricted and unrestricted revenues. Expenditures within these activity groups are allocated within the categories of Salaries and Benefits, Services and Supplies, Housing Programs, and Reserves.

The table below provides comparison between the FY 2011 Proposed Budget and previously approved FY 2009 and FY 2010 Budgets and illustrates changes in revenue and expenditures from year to year.

<b>FISCAL YEAR 2011 PROPOSED BUDGET SUMMARY</b>								
	FY09*		FY10		FY11		Change from FY10	% Change from FY10
	FY09*	% of Total	Current	% of Total	Proposed	% of Total	to FY11	to FY11
<b>Revenue</b>								
Restricted	\$240.3	80%	\$268.4	84%	\$254.1	87%	(\$14.3)	-5.3%
Unrestricted	\$60.6	20%	\$51.7	16%	\$37.6	13%	(\$14.0)	-27.2%
<b>TOTAL REVENUE</b>	<b>\$300.9</b>	<b>100%</b>	<b>\$320.1</b>	<b>100%</b>	<b>\$291.7</b>	<b>100%</b>	<b>(\$28.3)</b>	<b>-8.9%</b>
<b>Expenditures</b>								
Salaries and Benefits	\$18.7	6%	\$20.1	6%	\$20.9	7%	\$0.8	4.0%
Services and Supplies	\$10.2	3%	\$13.8	4%	\$13.1	5%	(\$0.6)	-4.5%
Housing Programs	\$236.5	79%	\$249.3	78%	\$228.0	78%	(\$21.4)	-8.6%
Reserves	\$35.5	12%	\$37.0	12%	\$29.8	10%	(\$7.2)	-19.4%
<b>TOTAL EXPENDITURES</b>	<b>\$300.9</b>	<b>100%</b>	<b>\$320.1</b>	<b>100%</b>	<b>\$291.7</b>	<b>100%</b>	<b>(\$28.3)</b>	<b>-8.9%</b>
* FY 2009 Current Budget at time of FY 2010 Adoption								

## FISCAL/POLICY DISCUSSION

Following is a review of major changes in expenditures and revenue, followed by a description of these changes by activity group from FY 2010 to FY 2011.

### Expenditure Changes

The FY 2011 Proposed budget includes the following significant expenditure changes, as outlined below.

#### **An increase of \$806,998, or 4%, in Salaries and Benefits, includes:**

- An increase of \$892,246 in salaries resulting from the addition of 4.00 FTE positions totaling \$265,886, the reclassification of 18 positions at an increase of \$62,847, annualization of salaries at an increase of \$186,963, and a recalculation of salaries based on movement along the step plan at an increase of \$376,550. These increases are offset by a reduction of a reserve previously budgeted for increases or bonuses at \$351,183, a reduction of \$2,112 for overtime, and a reduction of \$6,482 for vacancy factor. In all, the salary expenditures have increased by \$532,469.
- An increase of \$274,529 in benefits includes an increase of \$204,561 in flexible

plan benefits and includes benefits budgeted for new positions.

**A decrease of \$620,524, or 4.5%, in Services and Supplies includes:**

- An increase of \$123,000 in legal services
- A decrease of approximately \$1.6 million in contracts/consultants
- An increase of \$929,334 in management fees associated with the operation of SDHC-owned properties.

**A decrease of \$21.4 million, or 8.6%, in Housing Programs includes:**

- An increase of \$4.9 million to provide debt service and replacement reserves
- An increase of \$4.3 million in rent to owners
- A decrease of \$18.5 million in loans and grants
- A decrease of \$11.8 million in site acquisition and housing development.

**A decrease of \$7.2 million, or 19.4%, in Reserves includes:**

- A decrease of \$859,626 in program reserves
- An increase of \$1.1 million in contingency reserves
- A decrease of \$7.4 million in unobligated reserves.

**Revenue Changes**

The Housing Commission budget has over 80 different sources of revenue. Approximately 75%, or \$219 million, of revenues are federal, 24%, or approximately \$70.6 million of revenues are local San Diego revenues and the remaining 1%, or \$2.2 million, are State revenues.

The net decrease of \$28.3 million in revenues includes:

- A decrease of \$926,965 in Community Development Block Grant funds
- An addition of \$662,000 in Emergency Shelter Grant funds
- A decrease of approximately \$9.7 million in HOME federal grant funding
- A decrease of approximately \$1.1 million in Housing Trust Funds
- A decrease of approximately \$5.5 million in HUD Lead Hazard Control Grant
- A decrease of approximately \$8.0 million in Neighborhood Stabilization Program (NSP) funds
- A decrease of approximately \$4.1 million in Public Housing funds
- An increase of \$4.2 million in Section 8 Programs revenues

The City Commercial Linkage Fee is a source of revenue for the Housing Trust Fund. The Housing Commission is currently in the process of issuing two RFPs for the completion of an updated Linkage Fee nexus study and a study of alternative ways to pursue funding for affordable housing in San Diego. Most recently, Housing Commission staff presented an update on the Linkage Fee nexus study RFP process at the April 22, 2010 meeting of the Citizens' Revenue Review and Economic Competitiveness Commission.

### Overview of Changes by Activity Group and Activity

#### **I. Housing Services and Special Initiatives Activity Group**

Previously titled Housing Services, this activity group was revised in FY 2010 to include Special Initiatives, to enhance the administration of U.S. Department of Housing and Urban Development (HUD) programs. In FY 2011, this activity group will include the administration of the City's annual winter shelter program. Overall, the Housing Services and Special Initiatives Activity Group is proposed to increase by approximately \$6.1 million, or 3.4%, in FY 2011.

The Rental Assistance Activity is proposed to increase by \$3.9 million in Housing Programs expenditures due to an increase in federal rent to owners funds.

The Workforce and Economic Development Activity is proposed to decrease by approximately \$346,000 due to a reduction to commitments for office rent, equipment expenditures and other costs associated with the Economic Development Academy incurred in FY 2010.

The Special Housing Initiatives Activity is set to increase by approximately \$2.6 million in housing programs expenditures – the result of an increase of \$268,000 in rent to owners revenue and an increase of \$2.3 million in loans and grants. Two positions will be transferred from the Special Housing Initiatives Activity to the Board and Executive Functions Activity within the Operations Activity Group and 1.00 FTE Senior Program Analyst position will be added at a cost of approximately \$91,000 to assist with the administration of the City's winter shelter program and the Cortez Hill Family center.

#### **II. Real Estate Activity Group**

This activity group, previously titled Housing Development and Finance, was restructured to improve the focus on developing affordable housing. As a result, all development functions have been reorganized into the Real Estate Activity Group.

The Real Estate Activity Group is slated to decrease by \$24.7 million, or 28.3%, in FY 2010 – largely due to significant reductions in Housing Programs expenditures.

Within the Rental Housing Development Activity, major changes for FY 2011 include the addition of 2.00 FTE Assistant Real Estate Manager positions, resulting in an increase of \$218,504 in salaries and benefits. This addition is associated with the new finance plan for the acquisition and development of additional housing units approved by the Housing Authority in October 2009.

Rental Housing Finance Activity is budgeted at a reduction of approximately \$7.6 million, largely due to a reduction of \$7.3 million in HOME funds.

The Homeownership Activity is budgeted to decrease by approximately \$1.4 million, largely the result of a decrease of approximately \$1.4 million in housing programs revenue.

A reduction of \$7.6 million in Rental Housing Rehabilitation Activity is largely the result of a decrease of \$2.2 million of federal Lead Grant funds from FY 2010, \$3.0 million less in HOME funds and \$2.4 million less in Community Development Block Grant funds.

A decrease of \$4.6 million in the Owner Occupied Rehabilitation Activity is the result of a decrease of \$2.1 million due to loan and grants funds commitment of Redevelopment Agency funds, a decrease of \$1.9 in NSP funds, and a decrease of \$600,000 in Lead Grants funds.

An increase of approximately \$619,000 in the Management Subactivity of the Property Management Activity is largely the result of an increase of \$890,000 in supplies and services due to the addition of management fees for the operation of SDHC-owned properties.

### **III. Operations Activity Group**

The Operations Activity Group is budgeted to decrease by \$2.5 million, or 15.8%, in FY 2011.

The Board and Executive Functions Activity will be expanded in FY 2011 with the addition of a new policy unit, charged with policy development of new initiatives such as Transportation Oriented Development and workforce housing. This policy unit will be supported by the transfer in of 2.00 FTE positions from Special Initiatives Activity.

The Business Services Activity includes the addition of 1.00 FTE Contract Analyst position at a cost of approximately \$79,900. This position will be tasked with responsibilities associated with the administration of homeless shelter contracts.

#### **IV. Reserves Activity Group**

In FY 2011, the Reserves Activity Group totals \$29.8 million, or 10% of the total agency budget – an overall decrease of \$7.2 million, or 19.4%, from FY 2010.

Unobligated Reserves are budgeted at \$9.4 million, or 3.22%, of the FY 2011 Proposed Budget. A decrease of \$7.4 million in Unobligated Reserves is the result of:

- An increase of \$4.6 in carryover and new funds.
- A decrease of \$5.7 million due to a transfer to support various administrative expenses due to less HOME, HTF Linkage Fees and Inclusionary fund revenue previously used to support these functions.
- A decrease of \$4.9 million due to a transfer to Rental Housing Development for the annualization of debt service related to the new finance plan.
- A decrease of \$1.1 million due to a transfer to contingency reserves.
- A decrease of \$380,000 as a result of a transfer to support winter homeless shelter and other homeless activities within Special Housing Initiatives.

As in our past reviews of the Housing Commission budget, the IBA continues to recommend the budgetary best practice of maintaining an Unobligated Reserve level of at least 5% of the total budget. We recommend that the Unobligated Reserves be replenished to the 5% level if additional funding is realized throughout the year.

At the May 7, 2010 Housing Authority budget hearing, Housing Commission staff noted that they believe that reserve levels are adequate to safeguard the Housing Commission. Furthermore, Housing Commission staff indicated that if additional funds become available, the Unobligated Reserve would be brought to the 5% level.

#### **Winter Shelter Program and Comprehensive Homeless Facility**

As in previous years, FY 2011 budget includes approximately \$400,000 in funding for the operation of the City's annual winter shelter facility within the Special Housing Initiatives Activity. Moreover, as detailed above, the Housing Commission is taking steps to assume responsibility for administering both the winter shelter and the Cortez Hill Family Center program.

Details regarding this administrative transition were presented at the April 21, 2010, Meeting of the Land Use and Housing Committee, at which time the Committee voted to forward to Council the proposal to enter into a two-year Memorandum of Understanding between the City and the Housing Commission authorizing the Housing Commission to administer City contracts related to homeless services. This agreement would allow for the Housing Commission to directly receive Emergency Shelter Grant funds, as noted above to be budgeted at \$662,000 for FY 2011.

On April 3, 2009, the City issued a Request for Proposals (RFP) for the development and operation of a service center serving homeless and extremely low income individuals. On April 21, 2010, at the Meeting of the Land Use and Housing Committee, the RFP Selection Committee, headed by Housing Commission staff, presented its recommendation to enter into an exclusive negotiation agreement with PATH/Affirmed as the developer and operator. The Committee voted to direct the proposed developer, PATH/Affirmed, to return to Land Use and Housing after 90 days to allow for the conduct of additional public outreach.

### Finance Plan and Capital Improvement Program Budget

On October 13, 2009, the Housing Authority approved the SDHC Finance Plan for the Acquisition of New Affordable Housing Units. At that time, our office suggested adding a Capital Improvement Program (CIP) budget to the Housing Commission annual budget and it has been included as an addendum to the FY 2011 Proposed Budget.

The proposed CIP Budget for FY 2011 totals approximately \$57.2 million in Total Uses of Funds for the acquisition/development of 538 housing units. This includes \$10.8 million of funds budgeted for anticipated public/private partnerships and \$46.0 million budgeted for yet to be identified projects to be owned solely by SDHC or in partnership with other public agencies such as CCDC or SEDC. Additionally, \$350,000 is budgeted for closing/legal costs.

An annual update on the status of the Finance Plan is expected at the July 20, 2010 meeting of the Housing Authority.

## CONCLUSION

The IBA recommends the adoption of the FY 2011 Proposed Budget, along with the provision to delegate to the Housing Commission the authority to amend the FY 2011 Budget for amounts up to \$250,000. This delegation of authority is consistent with prior years. Furthermore, the IBA continues to recommend the budgetary best practice of maintaining an Unobligated Reserve level of at least 5% of the total budget. We recommend that the Unobligated Reserves be replenished to the 5% level if additional funding is realized throughout the year.

**[SIGNED]**

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